

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 EA-07 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-03 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 IGA-02 AGR-05 /110 W

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P 080625Z MAR 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC PRIORITY 756

INFO SECTREASURY PRIORITY

AMEMBASSY ABU DHABI

AMEMBASSY BONN

AMEMBASSY DAMASCUS

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY MOSCOW

AMEMBASSY PARIS

AMEMBASSY ROME PRIORITY

AMEMBASSY TEHRAN

AMEMBASSY TEL AVIV

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 CAIRO 3033

TREASURY PASS SECRETARY SIMON

E.O. 11652: GDS

TAGS: EFIN, OVIP (SIMON, WILLIAM E.)

SUBJECT: SIMON VISIT: MEETING WITH FINANCE MINISTER ABU ISMAIL

1. SUMMARY: SECRETARY SIMON AND MINFIN ABU ISMAIL DISCUSSED BROAD RANGE OF ECONOMIC QUESTIONS INVOLVING GOE DEBT POSITION, FINANCIAL REFORMS, FOREIGN PRIVATE INVESTMENT, DEPOSIT OF USG POUND FUNDS IN CHASE NATIONAL VENTURE BANK, AND POSSIBLE US TECHNICAL ASSISTANCE IN CORDIAL MEETING MARCH 6. MINFIN ABU ISMAIL ASKED ABOUT SIZE OF FUTRE US AID AND WAS TOLD BY SECRETARY
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FY 1977 AID BILL ALONG LINES OF FY 76 MEASURE LIKELY WILL BE

PASSED. TECHNICAL ASSISTANCE WAS REQUESTED IN EXPORT PROMOTION, TAX ADMINISTRATION AND PROJECT EVALUATION. SECRETARY STRESSED THROUGHOUT MEETING DESIRABILITY OF FACILITATING US INVESTMENT AS MEANS TO STRENGTHEN PRIVATE SECTOR AND BENEFIT EGYPTIAN ECONOMY. END SUMMARY.

2. SECRETARY SIMON, PRESIDENTIAL ASSISTANT SEIDMAN AND AIDES, ACCOMPANIED BY CHARGE, HELD MUTUAL MEETINGS IN CAIRO WITH MINFIN DR. AHMED ABU ISMAIL AND HIS PRINCIPAL AIDES FOR MORE THAN ONE HOUR MARCH 6. MINFIN ABU ISMAIL BEGAN SESSION BY EXPRESSING APPRECIATION TO US FOR ASSISTANCE IN MEETING EGYPT'S LIQUIDITY PROBLEMS DURING 1975 AND THEN ADDRESSED HIMSELF TO 1976 FINANCIAL DIFFICULTIES. MINFIN CHARACTERIZED THIS YEAR'S PROBLEMS AS SIMILAR TO IMMEDIATELY PRECEDING YEARS IF SOMEWHAT LESS CRITICAL. HE NOTED GOE SHORT-TERM DEBTS HAD DECLINED FROM LE 945 MILLION AT END OF 1974 TO LE 700 MILLION A YEAR LATER, BUT INDICATED GOE WISHES TO REDUCE THIS TOTAL TO LE 250-300 MILLION.

3. ABU ISMAIL REVIEWED PROBLEM DERIVING FROM SOVIET DEBT AND HIGH WAR EXPENDITURES, NOTING DEFENSE BUDGET AMOUNTED TO MORE THAN 35 PERCENT OF TOTAL GOVERNMENT SPENDING. MINFIN DISCUSSED UNSUCCESSFUL DEBT NEGOTIATIONS WITH SOVIETS, COMMENTING ON TOUGH BARGAINING AND THEIR REFUSAL, THUS FAR, TO EXTEND REPAYMENT PERIOD OR GRANT RELIEF ON INTEREST BURDEN OF MILITARY DEBT. HE STATED THAT PORTION OF COMMERCIAL DEBT IS BEING PAID THROUGH IMBALANCE IN TRADE ACCOUNT IN USSR'S FAVOR. DR. ABU ISMAIL SAID GOE PLANS TO DOUBLE EXPORTS AND INVISIBLE EARNINGS BY 1980. HE SAID EGYPT NEEDS HELP IN FINDING MARKETS IN WEST, AND, IN THIS RESPECT, TO IMPROVE QUALITY OF EXPORTS, AS MEANS TO DECREASE DEPENDENCE ON EASTERN EUROPEAN BLOC FOR EXPORT OUTLETS.

4. IN RESPONSE TO QUERY BY SECRETARY SIMON ON CONSULTATIONS WITH IMF AND IBRD, MINFIN STATED THAT GOE AGREES FULLY, IN PRINCIPLE, WITH THEIR POSITION ON ECONOMIC POLICIES, BUT THAT POLITICAL AND SOCIAL FACTORS INHIBIT AT THIS TIME FAR-REACHING REFORMS SUCH AS ESTABLISHING UNIFIED EXCHANGE RATE AND ELIMINATING CONSUMER SUBSIDIES. HE INDICATED ESTABLISHMENT OF SINGLE EXCHANGE RATE, WITH CONCOMITANT DEVALUATION, WOULD LEAD TO PRICE INCREASES WHICH WOULD FALL MOST HEAVILY ON LOW INCOME GROUPS. HE ACKNOWLEDGED GOE WILL BE FORCED TO REDUCE OVERALL SUBSIDY

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BILL DUE TO COST INCREASE BY FACTOR OF THREE AND FOUR SINCE 1973 WITH NO ACCOMPANYING INCREASE IN GOVERNMENT REVENUES. MINFIN COMMENTED THAT HE HAS PRESENTED PROPOSAL TO CABINET ON REDUCING BUDGETED LE 250 MILLION 1976 SUBSIDY TOTAL BY 20 PERCENT AND PROVIDED SECRETARY SIMON WITH COPY (IN ARABIC) OF PROPOSAL DOCUMENT. ONE CONSUMER ITEM ON WHICH SUBSIDY IS TO BE REMOVED IS HIGHER QUALITY WHEAT FLOUR. WITH FURTHER REGARD TO EXCHANGE RATE, ABU ISMAIL REMARKED THAT IMF AND IBRD WERE

BEGINNING TO RECOGNIZE POLITICAL IMPLICATIONS OF FAR-REACHING REFORMS, BUT THAT GOE IN ANY EVENT IS MOVING TOWARD INCREASED USE OF THE PARALLEL MARKET, RESERVING OFFICIAL EXCHANGE RATE FOR IMPORT TRADE IN LUXURY ITEMS.

5. SECRETARY SIMON EXPRESSED PLEASURE THAT GOE HAS AUTHORIZED TRANSFER OF LE 10 MILLION IN USG-OWNED SURPLUS POUNDS TO JOINT VENTURE CHASE NATIONAL BANK. MINFIN APPEARED UNAWARE OF CENTRAL BANK APPROVAL AND ARGUED AT LENGTH ABOUT POSSIBLE INFLATIONARY EFFECTS OF TRANSACTION THROUGH INCREASE IN MONEY SUPPLY. SECRETARY RESPONDED TO EFFECT THAT PORTION OF SUCH FUNDS COULD USEFULLY BE AUTHORIZED TO PROMOTE PRIVATE SECTOR DEVELOPMENT AND THAT AGREEMENT SHOULD BE SOUGHT ON PRECISE AMOUNT. MINFIN, WHILE NOT DISAGREEING CATEGORICALLY, INSISTED AMOUNT INVOLVED SHOULD BE MINIMAL.

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INFO OCT-01 EUR-12 EA-07 ISO-00 AID-05 CIAE-00 COME-00

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C O N F I D E N T I A L SECTION 2 OF 2 CAIRO 3033

6. THIS LED TO DISCUSSION OF FOREIGN PRIVATE INVESTMENT. SECRETARY EMPHASIZED IMPORTANCE IMPLEMENTATION OF ONE MAJOR INVESTMENT PROJECT WOULD HAVE AS ENCOURAGEMENT TO FURTHER INTEREST INF THIS FIELD. SECRETARY CITED NEED TO ASSURE AVAILABILITY OF FOREIGN EXCHANGE FOR PROJECT IMPLEMENTATION AND NECESSITY FOR EXPEDITIOUS APPROVAL PROCEDURES. MINFIN EXPRESSED DISSATISFACTION WITH RATE OF FOREIGN INVESTMENT THUS FAR, DESPITE GOE INCENTIVES, E.G., ESTABLISHMENT OF FREE ZONES. WHEN IMPORTANCE OF DOMESTIC MARKET AND FOREIGN EXCHANGE FLEXIBILITY TO MOST JOINT INVESTMENT PROJECT ACTIVITIES WAS POINTED OUT TO MINFIN, CONFIDENTIAL

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HE REMARKED THAT GOE IS PREPARING NEW FOREIGN EXCHANGE LAW WHICH WILL LIFT MANY OF PRESENT RESTRICTIONS. HE SAID PROPOSED LEGISLATION HAS BEEN APPROVED BY THE CABINET AND IS BEING SUBMITTED TO PEOPLE'S ASSEMBY WHICH WILL LIFT CONTROLS ON FOREIGN EXCHANGE EARNINGS BY COMPANIES IN EGYPT AND WILL PERMIT BANKS TO DEAL IN FOREIGN CURRENCY WITHOUT CENTRAL BANK CONTROLS. HE TERMED THIS A SIGNIFICANT LIBERALIZATION DEVELOPMENT IN FINANCIAL FIELD. MINFIN'S AID POINTED OUT THAT IMPORTANCE OF IMPORT SUBSTITUTION INVEESTMENT PROJECTS IS RECOGNIZED. GOE WILL REALLOCATE FUNDS FROM FOREIGN EXCHANGE BUDGET FOR RAW MATERIALS WHERE A PROJECT CLEARLY REDUCES IMPORTS OF FINISHED PRODUCTS. SECRETARY SIMON REITERATED IMPORTANCE OF INTRODUCING US PRIVATE SECTOR IN EGYPT THROUGH INVESTMENT PROJECTS.

7. SECRETARY NOTED THAT DEBT ARREARAGES WITH US HAS BEEN PROBLEM, IF RELATIVELY MINOR. IT CAME OUT IN EXCHANGE, HOWEVER, THAT TOTAL ARREARAGE HAD ONLY RECENTLY BEEN DECREASED FROM \$10 MILLION TO \$4.5 MILLION, AND THAT FURTHER PAYMENT IS EXPECTED DURING SECOND WEEK OF MARCH.

8. THREE AREAS OF POSSIBLE USG TECHNICAL ASSISTANCE WERE DISCUSSED: EXPORT TECHNIQUES AND FINANCING, TAX ADMINISTRATION AND PROJECT EVALUATION. FIRST AREA IS RELATED TO GOE NEED TO EXPAND EXPORT MARKET IN WESTERN COUNTRIES AND THUS REDUCE EASTERN BLOC LEVERAGE IN TRADE FIELD. SECRETARY AGREED ON IMPORTANCE OF QUESTION AND NOTED US WILL ASSIST EVERY WAY IT CAN. MINFIN ABU ISMAIL ALSO INDICATED HE WATNED TO MOVE AHEAD ON SECRETARY'S OFFER TO SEND IN, AT AN EARLY DATE, A US TAX ADVISORY GROUP AND SAID, AS WELL, THAT HE WOULD LIKE TO SEND 30 OR 40 SENIOR OFFICIALS FOR TRAINING IN US. SECRETARY SIMON AGREED TO DO THIS, SUGGESTING US TRAINING SHOULD BE SCHEDULED ON PHASED BASIS. TECHNICAL ASSISTANCE IN PROJECT APPRAISAL AROSE IN DISCUSSION OF NEED TO STREAMLINE FOREIGN PRIVATE INVESTMENT REVIEW PROCEDURES. SECRE-

TARY SIMON NOTED US HAS CONSIDERABLE CAPABILITY IN THIS FIELD AND WOULD HELP AS REQUIRED, BUT QUESTIONED WHETHER SUCH TRAINING WOULD HAVE RAPID ENOUGH EFFECT ON INVESTMENT EVALUATION. HE SUGGESTED AGAIN THAT INVESTMENT SIGNAL TO BUSINESS IS NEEDED IN FORM APPROVAL OF SIGNIFICANT US JOINT VENTURE PROJECT AND POITED OUT IMPEDIMENTS TO INVESTMENT MUST BE REMOVED FOR EGYPT TO GAIN BENEFITS FROM PROPOSED PROJECTS.

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9. MINFIN DISCUSSED BRIEFLY PROPOSAL FOR ARAB-EGYPTIAN INVESTMENT FUND ARISING FROM PRESIDENT SADAT'S RECENT TOUR OF SAUDI ARABIA AND GULF STATES, BUT NOTED FINANCING EXPECTED IS NOT ENOUGH FOR EGYPT'S NEEDS OVER NEXT FIVE YEARS. ABU ISMAIL ASKED DIRECTLY HOW MUCH COULD BE EXPECTED FROM US IN FUTURE. SECRETARY SIMON RESPONDED, WITHOUT CITING FIGURES, THAT HE IS CONFIDENT 1977 AID PROGRAM SUBMITTED TO CONGRESS WILL PASS, WITH MINOR CHANGES POSSIBLE.

10. SESSION WAS CONDUCTED IN ITS ENTIRETY IN CORDIAL AND RELAXED ATMOSPHERE, FOLLOWING AS IT DID IMMEDIATELY UPON PERIOD OF SOME 24 HOURS OF INFORMAL CONTACT BETWEEN SECRETARY AND MINFIN DURING LUXOR PORTION OF VISIT. TV FILMING AND NEWS PHOTO COVERAGE OF OPENING STAGE OF MEETING WAS EXTENSIVE.
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